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C O N F I D E N T I A L SECTION 01 OF 05 HARARE 001016

SIPDIS

AF/S FOR B. WALCH
DRL FOR N. WILETT
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
STATE PASS TO USAID FOR E. LOKEN AND L. DOBBINS
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN

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TAGS: [PGOV](#) [EMIN](#) [ASEC](#) [PHUM](#) [ZI](#)
SUBJECT: REGIME ELITES LOOTING DEADLY DIAMOND FIELD

REF: 2007 HARARE 319

Classified By: Ambassador James D. McGee for reason 1.4 (d)

SUMMARY

¶1. (C) The CEO of a British mining company described to us how high-ranking Zimbabwean government officials and well-connected elites are generating millions of dollars in personal income by hiring teams of diggers to hand-extract diamonds from the Chiadzwa mine in eastern Zimbabwe. They are selling the undocumented diamonds to a mix of foreign buyers including Belgians, Israelis, Lebanese, Russians and South Africans who smuggle them out of the country for cutting and resale elsewhere. Despite efforts to control the diamond site with police, the prospect of accessible diamonds lying just beneath the soil's surface has attracted a swarm of several thousand local and foreign diggers. The police response has been violent, with a handful of homicides reported each week, though that number could grow as diggers arm themselves and attract police and army deserters to their ranks. END SUMMARY

High-Ranking Officials Trading Diamonds

¶2. (C) On November 6, poloff met with Andrew Cranswick, the CEO of African Consolidated Resources (ACR), the publicly-traded British firm that had its Chiadzwa diamond claim in the Marange district of Manicaland seized by the government parastatal Minerals Marketing Corporation of Zimbabwe (MMCZ) in 2006 (reftel). According to Cranswick, there is a small group of high-ranking Zimbabwean officials who have been extracting tremendous diamond profits from Chiadzwa. Cranswick said that RBZ Governor Gideon Gono, Grace Mugabe, wife of President Robert Mugabe, Vice President Joyce Mujuru, Mines and Mining Development Minister Amos Midzi, General Constantine Chiwenga and wife Jocelyn, CIO

Director Happyton Bonyongwe, Manicaland Governor Chris Mushowe, and several white Zimbabweans, including Ken Sharpe, Greg Scott, and Hendrik O'Neill, are all involved in the Marange diamond trade.

13. (C) On October 14, econ specialist traveled to the periphery of the no-go area around the Chiadzwa diamond site located about 60 km southwest of Mutare in Manicaland. Repeated inquiries about who was involved in the diamond trade elicited many of the same names mentioned by Cranswick.

14. (C) Econ specialist also met with Manatsawani Mutasa, a ZANU-PF Central Committee member and Manicaland resident, who added that Justice Minister Patrick Chinamasa, Women's Affairs Minister Oppah Muchinguri, and Sabina Mugabe--sister of President Mugabe--have also been profiting from the purchase and sale of Chiadzwa diamonds.

How the Chiadzwa Diamond Trade Works

15. (C) The GOZ possesses the diamond mining rights to Chiadzwa, but the Zimbabwe Mining Development Corporation (ZMDC) does not do any extraction itself. The ZMDC brought in some mining equipment in 2006 after seizing the mining rights from ACR, but their efforts were minimal and soon halted altogether. According to Cranswick, all extraction is now being done by hand panners who merely sift the top meter of soil. Some of these panners operate in teams that sell

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their diamonds to representatives of the above-named officials and connected elites. Other panners are individual operators who merely sell to the highest bidder. Often the panners who are affiliated with a particular regime buyer, will only sell a portion of their diamonds to that person's representative, holding back the remainder to sell for higher prices to foreign buyers offering hard currency.

16. (C) The diamonds that are sold to regime members and elites are sold for freshly printed Zimbabwean notes issued by the RBZ. These diamonds are aggregated and resold to foreign buyers for US dollars or rand in nearby Mutare, in Harare, over the border in the Mozambican towns of Manica and Chimoio, or even in South Africa. (NOTE: Econ specialist reported that Mutare was awash with diamond money. The Holiday Inn was booked with guests checking in for weeks at a time. Food prices in shops near Marange were exorbitant, with meat prices four times higher than in Harare. END NOTE.)

17. (C) The diamonds that are not sold to regime members and elites, but instead are sold directly to foreign buyers, actually constitute the majority of the diamond trade in Chiadzwa. Cranswick said that around 85 percent of the diamonds extracted from Chiadzwa are sold directly to foreign buyers. Even so, he conservatively estimated that Mujuru, Gono and the rest were probably each making several hundred thousand dollars a month.

18. (C) Whether bought first by regime members or not, eventually the diamonds are sold to a mix of Belgians, Israelis, Lebanese (the largest contingent), Russians, and South Africans. A well-known buyer named Gonyeti fronts for Gono, as do two other buyers named Tendai Makurumidze and Takunda Nyaguze, according to Mutasa. Once sold to foreigners, the majority of the diamonds are smuggled to Dubai and sold at the Dubai Multi Commodities Centre Authority, a dedicated economic free-trade zone created in 2002 for the exchange of metals and commodities, most notably gold and diamonds. Although Zimbabwe is a participant in the Kimberley process, the diamonds from Chiadzwa are undocumented and therefore are not in compliance with Kimberley, which requires loose uncut diamonds to be certified.

¶9. (C) The highest quality diamonds are not sent to Dubai, but are shipped to Belgium, Israel, or South Africa for cutting. Despite this wide dispersal, Chiadzwa diamonds are very distinctive because of their age, color, and clarity and can easily be traced back to the Marange mine, according to Cranswick. He implicated Ernie Blom, president of South Africa's Diamond Merchants Association in the illicit trade of Chiadzwa diamonds, and said that Blom had been known to boast of his involvement in illegal Zimbabwean diamonds. When asked why purportedly reputable diamond dealers would involve themselves in Chiadzwa, Cranswick said that the site was "massive" with tremendous profit potential that was attracting numerous buyers. One such group consisted of Russians who had recently bought US\$500,000 worth of diamonds at an MMCZ auction, paying US\$29/carats. They bought eight to ten carat rough diamonds, five to ten percent of which were gem quality.

Diamond Trade a Violent Business

¶10. (C) The diamond frenzy in Chiadzwa has led to hundreds and possibly thousands of homicides. Word of easy diamonds spurred a rush of Zimbabwean and foreign diggers to the area including Angolans, Congolese, Mozambicans, South Africans and Zambians, as well as diggers from as far away as Sierra

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Leone and Cote D'Ivoire Cranswick estimated there are currently around three or four thousand diggers swarming over the 70 hectare Chiadzwa site. The police have unsuccessfully tried to prevent the site from becoming overrun, and routinely use live fire to chase away diggers. Anyone trying to enter the area has to present a Zimbabwean national identification card with a registration number that ends in "75", signifying the person is a resident of the Mutare region of Manicaland.

¶11. (C) During the first weekend of November, police killed at least five panners in Chiadzwa, according to the on-line newspaper Zimbabwe Times. While usually operating on foot with attack dogs, this time the police used a helicopter to shoot at panners. Passmore Nyakureba, a lawyer with the Zimbabwe Lawyers for Human Rights said, "This has become an everyday scenario. Up to five people die every week as a result of being shot at by police or after being bitten by dogs." Cranswick said that at the peak of the frenzy in 2007, up to a hundred panners were shot in a week.

¶12. (C) In response to aggressive police action, diggers began arming themselves with handguns and in some cases automatic weapons. They also formed loose gangs in an attempt to protect themselves as well as "claimed" areas. Cranswick said that some members of the police and army have deserted in order to join the digging, and they typically brought their firearms with them. Some former police even still wear their uniforms as they search for diamonds.

Police Corrupted; Community Destroyed

¶13. (C) Cranswick said that the police were rotated into the area on two-week shifts to control the mining and keep unauthorized diggers out, but they were immediately corrupted. Police officers routinely charged 100 rand or US\$10 a person for a day's digging in Chiadzwa. The military has largely avoided the area out of fear that commanding officers would lose control of their troops, according to Cranswick.

¶14. (C) Cranswick maintained that local chiefs were on ACR's side in its pending court battle to win back its claim. They realized that the "curse" of diamonds had wreaked havoc in the community. Children were no longer attending school, the

environmental degradation was severe, lawlessness and violence reigned, and the community was not benefiting from the resource. According to an independent weekly newspaper, three quarters of the schools in Marange, Buhera, and Chimanimani districts failed to open this term because teachers and students alike were digging for diamonds.

What's At Stake?

¶15. (C) Chiadzwa has the potential of being a major source of industrial and gem quality diamonds. What makes it so commercially valuable is that it possesses a diverse mix of different size and color stones, all within just a few meters of the surface. It also has a high carat per hundred tons (CPHT) ratio, a measure the industry uses to characterize the diamond concentration. Cranswick told us he was confidentially shown a report prepared for the De Beers Corporation by noted geologist John Ward. The report estimated that Chiadzwa had a CPHT of over 1,000. By comparison, the Rio Tinto/Rio Zimbabwe-owned Murowa diamond mine near Zvishavane in Midlands province has a CPHT of 120.

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¶16. (C) Eye witnesses and panners told us that they were extracting both industrial and gem quality stones, but predominantly the former. Cranswick believed that the site had 30 to 40 percent industrial diamonds and the rest gem quality, including very good quality five to 30 carat colored diamonds. In his view, the area could be commercially exploited for five to 25 years, including excavation of diamond yielding hard rock that ran deeper than the one meter depth currently being worked. Econ specialist also was told that another diamond field was discovered this year within five km of Chiadzwa at the village of Chirasika. Panners had begun working the site and it had not yet become a police-restricted area. We have no estimates for the potential of this new diamond discovery.

¶17. (C) On October 27, Gono publicly declared that the Zimbabwean economy could be turned around by stemming losses caused by illegal mining at Chiadzwa. According to Gono, "A reliable estimate shows that US\$1.2 billion per month would be realized from diamond sales in the country, enough to solve the economic challenges the country is currently facing." Cranswick said that while the estimate is probably exaggerated, Gono may be looking for a large one time dividend by selling a share of the mine or the mining rights to an outside investor. This would dwarf the relatively small profits he is now accruing from the mine.

¶18. (C) ACR has offered the government a deal in which ACR would take a 49 percent share of all diamond proceeds and give the rest to the GOZ, but Cranswick did not seem optimistic that the government would accept the deal.

Two Other Major Diamond Mines

¶19. (U) Murowa is a well-regulated mine operated by the British multinational mining giant Rio Tinto, which since 2004 has held a 78 percent share in the open-pit Murowa diamond mine in Zvishavane district, in southern Masvingo province. Murowa is a deep kimberlitic deposit that requires heavy machinery to extract the soil and rock.

¶20. (U) River Ranch is partially owned by retired General Solomon Mujuru (husband of Vice President Joyce Mujuru) and is located in Beitbridge in Matabeleland South. Mujuru gained a 20 percent stake in the mine at the expense of a local company, Buby Minerals, which was pushed out to Mujuru's benefit. Buby Minerals contested the ownership change, but was thwarted by the Zimbabwean courts. It is

unclear if Mujuru purchased his stake.

COMMENT

¶21. (C) In a country filled with corrupt schemes, the diamond business in Zimbabwe is one of the dirtiest. Mining in general remains the largest single source of foreign exchange, but the potential of Chiadzwa is being lost to Zimbabwean corruption. While Gono talks about using diamonds to stabilize the Zimbabwean economy, he would only do so if he thought he could personally make more in the process. At present, police trying to bring order to Chiadzwa are benefiting Zimbabwean officials who see the diamond field as a new source of illegitimate income; the people of Zimbabwe are seeing little return.

¶22. (C) It is also clear that Cranswick is a businessman trying to find any pressure point he can through which to leverage his own claim. At the same time, he sheds light on

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an industry that is enriching many of the same old corrupt Zimbabwean elite--and causing violence and deaths that so far have received little attention. END COMMENT.

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